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RUEHTA/AMEMBASSY ASTANA
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RUEHNT/AMEMBASSY TASHKENT 0025
RUEHDBU/AMEMBASSY DUSHANBE
RUEHML/AMEMBASSY MANILA 1535
RUEHLO/AMEMBASSY LONDON 0227
RUEHKO/AMEMBASSY TOKYO 2734
RUEHBK/AMEMBASSY BANGKOK 1626
RUEHOT/AMEMBASSY OTTAWA 0546
RUEHBY/AMEMBASSY CANBERRA 0201
RUEHSH/AMCONSUL SHENYANG 0375
RUEHVK/AMCONSUL VLADIVOSTOK 0179
RUEHOK/AMCONSUL OSAKA KOBE 0054
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC
RUCPODC/USDOC WASHDC 1419
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RUEATRS/DEPT OF TREASURY WASHDC

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SUBJECT: DEEP IN GOBI DESERT, NO-FRILLS COAL MINING

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1. (SBU) SUMMARY: Emboffs accompanied Peabody Energy geologists on a helicopter trip deep into Mongolia's Gobi desert on November 2 to reconnoiter the Little Tavan Tolgoi (LTT) coal mine, a rudimentary facility that has warmed Mongolians for 41 years. LTT is part of the larger Tavan Tolgoi (TT) deposit, which Peabody hopes to develop in partnership with the Mongolian Government. LTT, marked by two large open pits, lacks power lines, pipes and other key aspects of sophisticated mining, but operates around the clock. Once the coal-and-rock soil is scraped from the ground it is not "washed" to remove impurities but loaded directly onto trucks, most of which are then driven to China, spilling black coal dust and contaminating sheep and goats along the way. Safety precautions are lacking. 30% of workers are Chinese, although the mine's managers insist it's 10%. Post provides advocacy support on Peabody's behalf, in line with Commerce Department guidance. END SUMMARY.

2. (SBU) Commercial Officer and Econ/Pol Chief joined Peabody Energy geologists on a November 2 helicopter trip to the Gobi desert to visit the Little Tavan Tolgoi (LTT) coal mine, which according to official statistics generates 30% of Mongolia's annual coal output. LTT is situated within the substantially larger TT coal deposit, which is still under exploration. Peabody's aim was to quickly reconnoiter the site to get a better sense of the development problems that Peabody may face if it were to become the operator of the larger TT deposit.

"IT WOULD HAVE TO BE BUILT FROM SCRATCH"

13. (SBU) From the air, a sea of empty Gobi scrub and rocky sand passes before LTT comes into view, appearing as a dirty, coal-black island. Immediately visible are two open pits and a large mountain of waste rock, built from four decades of mining. Scores of trucks head in and out of the mine, not far from a camp with a microwave tower. Conspicuously lacking, however, are power lines, pipes, or any other sign of sophisticated infrastructure development. As one of Peabody's geologists commented: "It doesn't get more 'green field' than this." Peabody's specialists noted that everything from roads to power, and water to food, would have to be built from scratch or transported in - an expensive and time-consuming proposition.

30% OF NATIONAL COAL OUTPUT

14. (SBU) LTT is owned by a joint venture company consisting of the Omengobi Aimag provincial government (51%) and a private consortium led by local Parliamentarian Bat-Erdene, of the opposition Democratic Party. The mine is divided into two pits. LTT managers and local provincial officials told us that Pit 1 provides 400,000 metric tons per year of thermal coal for domestic users at a price of 6000 Mongolian Tugriks, or US\$5.11 per ton. They said Pit 2 provides some 2 million tons of coking (aka metallurgical) coal for export to China at a stated export price of US\$10.71 per ton. Put in perspective, LTT generates 30% of Mongolia's official output of eight million tons mined annually, both for domestic consumption and for export to China.

PEABODY UNIMPRESSED WITH OPERATION

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15. (SBU) Peabody's specialists were clearly unimpressed with the operation of LTT, but said it holds promise, not least of all because of the high concentration of coal in the soil. (NOTE: At most sites, the ratio of rock to coal is around 8:1, a Peabody official explained, while at LTT the ratio was roughly 1:1. END NOTE.) The TT deposits, including LTT, are suitable for open cast mining using drag lines, an efficient, productive method employed at most of Peabody's current operations. However, the LTT pit is mined by excavators loading several hundred 90-ton trucks 24 hours per day, seven days a week. From LTT, trucks carry the coal some 150 km to the Mongolia-China border, and then to a China-based railhead from which it is shipped an additional 200 km for end use in the Inner-Mongolian steel complex at Baotou. As Peabody explained, the current system has too many seams -- too many starts and stops -- to maximize efficiency and productivity (and thus profits).

20% OF TRUCKED PRODUCT IS DEAD WEIGHT

16. (SBU) The six relatively small excavators we counted can only fill up one truck at a time, and as each truck is filled another must take its place. Each pit has only one entrance, thereby compounding delays. Once the coal reaches the surface, it is not subjected even to a minimal washing process but is shipped straight to China. As a result, anywhere from 10% to 20% of the material trucked to China is dead-weight rock or dirt. The managers acknowledged these imperfections, but noted they still make a profit.

DISCREPANCIES OVER PRICE OF COAL

17. (SBU) LTT managers said the mine is operated by the Omengobi provincial government, with shipping services provided by a company owned and operated by the minority private owner, Bat-Erdene. The managers declined to explain how a contract with a government entity was awarded to one of the private holders of LTT. Regarding the pricing of the coal, the managers claimed not to know what coking coal was fetching in China, but finally came up with the figure of US\$10.71 per ton. (NOTE: Later, Commoff consulted with the bank that services LTT's accounts. The bank's CEO said the US\$10.71 figure

was inaccurate; the actual sale price received at the China railhead is US\$15 per ton, and the price paid by the end-user at Baotou is US\$25-30. The CEO added that there are occasional discrepancies between what the mine operators say they received from Chinese buyers and the cash they repatriated into Mongolia via the bank. END NOTE.)

SAFETY, ENVIRONMENTAL CONCERNS

18. (SBU) Safety and environmental precautions at LTT leave much to be desired. The steep pit walls are not roped off, nor are there embankments to prevent trucks, cars or people from taking a one-way plunge. Nearby roads appear asphalt-paved, but closer inspection reveals the mine's heavy environmental toll. These roads are, in fact, dirt tracks topped with coal dust spilled from countless trucks. Mine managers confirmed that the black-dust roads extend from LTT to the Chinese border 150 km away. They also conceded that

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GOM officials and local herders have complained about this pollution. Herders' concerns are well-founded for sheep, goats and other animals near the roads; coal dust has blackened both their meat and their coats, they claim.

CHINESE LABOR FIGURES A MOVING TARGET

19. (SBU) Mongolian law requires business to hire no less than 90% Mongolian workers, although waivers are allowed if skills are not locally available. LTT officials initially told us that the mine employs some 2,400 workers, and that 90% of them are Mongolians. The rest, they said, are Chinese, mostly from Inner Mongolia, and work mainly as drivers trucking the coal to China. These figures were called into question after we spoke with two on-site Chinese truckers. Asked for a clarification, LTT managers then revised their estimate, saying about 20% of the workforce is Chinese. However, an LTT employee we bumped into at the site confided that the actual figure is 30%, most employed as truckers and excavator operators. The employee said he is aware that LTT is not in compliance with the law, but pointed out that labor inspectors had never bothered LTT. (NOTE: Many foreign-invested businesses have reported being harassed by the GOM after they hired even one additional non-Mongolian worker. END NOTE.)

MINTON